

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 H-02 L-03 PRS-01

PA-01 USIA-06 SP-02 AID-05 EB-07 NSC-05 CIEP-01 SS-15

STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07

NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /105 W

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R 150638Z JUL 76

FM AMEMBASSY MANILA

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USADB

FOR NAC AGENCIES

PASS TREASURY FOR ZINMAN

E.O. 11652: ADS, DECLAS : 10/16/76

TAGS: EAID, EFIN

SUBJECT: REVIEW OF ADB LENDING RATE AND COMMITMENT CHARGE

REF: (A) MANILA 9784, (B) MANILA 8743, (C) TREASURY 76-66

SUMMARY: ADB PRESIDENT RECOMMENDS (A) INCREASE IN ORDINARY CAPITAL (OC) LENDING RATE FROM 8.75 TO 9.15 PERCENT TO BE EFFECTIVE FROM 8 JUNE 1976, (B) NEW RATE TO BE EFFECTIVE TO 31 DECEMBER 1976 UNLESS CHANGE IN IBRD RATE ON 1 OCTOBER 1976 IS MORE THAN 10 BASIS POINTS IN WHICH CASE ADB WOULD REVIEW ITS LENDING RATE IN OCTOBER 1976, (C) REDUCTION IN PREMIUM TO 60 BASIS POINTS FROM 75 ON OC LENDING RATE TO DMCS EXCEEDING \$850 PER CAPITAL GNP IN 1972 (HONG KONG AND SINGAPORE), AND (D) INCREASE COMMITMENT CHARGE BY INCREASING FROM 5P TO 60 PERCENT OF UNDISBURSED LOANS TO BE CHARGED AT UNCHANGED RATE OF

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0.75 PERCENT. USADB REQUESTS NAC GUIDANCE.

1. ADB DOC. R76-76 ON ABOVE SUBJECT WAS POUCHED 12 JULY 1976. BOARD CONSIDERATION SCHEDULED FOR 29 JULY 1976, BUD ADB PRESIDENT CONSIDERING POSSIBILITY OF 27 JULY.

2. ADB LENDING RATE: (A) ADB PRESIDENT JUSTIFIES INCREASE IN OC LENDING RATE BY 40 BASIS POINTS FROM 8.75 TO 9.15 PERCENT BECAUSE (I) RATE SHOULD BE ABOVE ESTIMATED 9.0 PERCENT COST OF BANK'S IMMEDIATE FUTURE BORROWINGS ESPECIALLY FOR MATURITIES CLOSE TO 12 YEAR WEIGHTED AVERAGE LIFE OF BANK LOANS, (II) RATE FOR TIME BEING SHOULD MAINTAIN CUSTOMARY 25 BASIS POINTS SPREAD ABOVE CURRENT 8.90 PERCENT IBRD RATE REFLECTING HIGHER ADB BORROWING COST AND (III) RATE SHOULD REFLECT MARKET BORROWING COSTS OF APPROPRIATE MATURITIES SINCE BANK WILL BECOME INCREASINGLY DEPENDENT ON BORROWED FUNDS TO FINANCE OC LOANS OVER NEXT FIVE YEARS. ADB DOCUMENT SUMMARIZES IBRD LENDING RATE FORMULA BUT REJECTS ADOPTION OF FORMULA QUOTE EXACTLY SIMILAR UNQUOTE TO IBRD FORMULA BECAUSE ADB BORROWINGS ARE FEWER IN NUMBER, LESS IN AMOUNTS AND IRREGULAR IN TIMING OF ISSUES IN DIFFERENT MARKETS. IN CONSEQUENCE, MOVEMENTS OF COMPUTED LENDING RATE WOULD BE ERRATIC AND COULD BE CONTRARY TO THOSE OF IBRD RATE. ADB PRESIDENT CONCLUDED THAT THESE FLUCTUATIONS WOULD LIKELY BE INCOMPREHENSIBLE TO BORROWING MEMBERS AND PROSPECTIVE INVESTORS IN BANK BONDS. (B) ADB PRESIDENT EXPLAINED THAT ON 17 JUNE BOARD DECIDED NEW LENDING RATE WOULD BECOME EFFECTIVE RETROACTIVELY ON LOANS APPROVED ON OR AFTER 8 JUNE 1976. ADB PRESIDENT RECOMMENDS THAT RATE BE EFFECTIVE THROUGH 31 DECEMBER 1976. HOWEVER, IF 1 OCTOBER 1976 IBRD RATE CHANGES BY MORE THAN 10 BASIS POINTS, ADB WOULD REVIEW ITS LENDING RATE IN OCTOBER 1976. OTHERWISE, ADB WOULD REVIEW IT LENDING RATE IN JANUARY 1977 AFTER ANNOUNCEMENT OF IBRD RATE ON 1 JANUARY 1977. JUSTIFICATION FOR 10 BASIS POINT MARGIN IS NOT INCLUDED IN DOCUMENT. IN THIS REGARD, SEE REFTEL A.

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3. PREMIUM ON BANK LENDING RATE TO HONG KONG AND SINGAPORE: ADB PRESIDENT'S JUSTIFICATION FOR RECUING PREMIUM FROM 75 TO 60 BASIS POINTS IS DUE TO REDUCTION OF SUBSIDY ELEMENT IN NEW LENDING RATE WHICH PROVIDES FOR POSITIVE SPREAD OVER BORROWING COSTS. NEW RATE WOULD BE 10.15 PERCENT. ADB DOCUMENT STATES THAT IMPACT OF THIS MEASURE ON BANK'S INCOME WILL BE NEGLIGIBLE. ADB PRESIDENT RECOMMENDS THAT PREMIUM

TAKE EFFECT FOR NEW LOANDS APPROVED FROM 8 JUNE 1976.

FYI: NO LOANS TO HONG KONG OR SINGAPORE SINCE
8 JUNE 1976. ADB MONTHLY OPERATIONAL INFORMATION LISTS
POSSIBLE HONG KONG LOAN FOR THIS YEAR FOR PUBLIC
HOUSING PROJECT. END FYI.

4. COMMITMENT CHARGE: ADB PRESIDENT PROPOSES TO
INCREASE COMMITMENT CHARGE ON OC LOANS OTHER THAN THOSE
FOR ENGINEERING AND TECHNICAL ASSISTANCE BY APPLYING
UNCHANGED FEE OF 0.75 PERCENT TO 60 PERCENT OF UNDISBURSED
LOAN BALANCES ON LOANS APPROVED AFTER 1 AUGUST 1976 OR
A FLAT FEE OF 0.45 PERCENT PER ANNUM. INCREASED
COMMITMENT CHARGE TO BORROWER WOULD BE 3 BASIS POINTS
FROM 8.82 TO 8.85 PERCENT ASSUMING 8.75 PERCENT LENDING
RATE AND AVERAGE BANK LOAN LIFE OF 12.3 YEARS. IF
COMPUTED ON BASIS OF IBRD COMMITMENT CHARGES, COMPARABLE
RATE WOULD BE 8.91 PERCENT OR 6 BASIS POINTS HIGHER
THAN PROPOSED ADB CHARGE. ADB DOCUMENT EXPLAINS THAT
BANK POLICY ON COMMITMENT FEE IS TO COMPENSATE BANK
FOR COST OF HOLDING LIQUID FUNDS AVAILABLE FOR DIS-
BURSEMENT UNDER APPROVED LOANS AND IS BASED ON
(A) NEGATIVE SPREAD BETWEEN BORROWING COST AND RETURN
ON INVESTMENTS AND (B) PERCENTAGE OF LIQUID ASSETS
HELD BY BANK TO UNDISBURSED LOAN BALANCES. DISBURSEMENT
EXPERIENCE PROMPTED ADB PRESIDENT TO RECOMMEND THAT
COMMITMENT FEE SHOULD BE CHARGED ON 60 PERCENT INSTEAD
OF 50 PERCENT OF UNDISBURSED LOANS. BANK PROPOSES
TO REJECT USE OF COMPLEX FORMULA TO DETERMINE COMMITMENT
CHARGE IN FIRST THREE YEARS OF 12 YEAR DISBURSEMENT
PATTERN WHICH RESULTS IN CHARGING FEE ON 50 PERCENT
OF UNDISBURSED LOAN.

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5. ADB DOCUMENT COMPUTATIONS INDICATE THAT PROPOSED
INCREASES IN LENDING RATE AND IN COMMITMENT CHARGE WILL
NOT ACHIEVE RESERVE/LOAN RATIO OF 0.15 AND INTEREST
COVERAGE RATIO OF 1.25 BY 1981. THESE RATIOS WOULD
BE EXCEEDED IF CAPITAL INCREASE OF 135 PERCENT INCLUDED
10 PERCENT PAID-IN OF WHICH 40 PERCENT IN CONVERTIBLE
CURRENCY AND 60 PERCENT IN MEMBER'S CURRENCY.

6. USADB REQUESTS NAC GUIDANCE.
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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, DEVELOPMENT BANKS, INTEREST RATES, DEVELOPMENT LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 15 JUL 1976
Decapton Date: 01 JAN 1960
Decapton Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MANILA10326
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760272-0991
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760756/aaaabwsp.tel
Line Count: 164
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 MANILA 9784, 76 MANILA 8743
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 24 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 MAY 2004 by BoyleJA>; APPROVED <17 SEP 2004 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REVIEW OF ADB LENDING RATE AND COMMITMENT CHARGE
TAGS: EAID, EFIN, ADB
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006